



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION  
500 WEST TEMPLE STREET, ROOM 525  
LOS ANGELES, CALIFORNIA 90012-3873  
PHONE: (213) 974-8301 FAX: (213) 626-5427

June 12, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo  
Auditor-Controller

SUBJECT: **FRIENDS RESEARCH INSTITUTE, INC. – A DEPARTMENT OF  
PUBLIC HEALTH DIVISION OF HIV AND STD PROGRAMS PROVIDER  
– CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Friends Research Institute, Inc. (FRI or Agency), which included a sample of transactions from Contract Year (CY) 2013-14. The Department of Public Health, Division of HIV and STD Programs (DHSP) contracts with FRI to provide HIV/AIDS health education, risk reduction counseling, and testing services.

The purpose of our review was to determine whether FRI provided the services outlined in their County contracts and appropriately spent DHSP funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their contracts and other applicable guidelines.

During CY 2013-14, DHSP had three contracts with FRI, and paid the Agency approximately \$843,000 on a cost-reimbursement and pay-for-performance basis. FRI provides services to clients residing in the First, Second, and Third Supervisorial Districts.

**Results of Review**

FRI appropriately charged payroll costs to DHSP and maintained personnel files as required. However, the Agency charged DHSP \$460 for a conference that occurred after the contract term ended, and did not ensure bank reconciliations were signed

appropriately. We noted a similar bank reconciliation finding in our prior monitoring review.

*FRI's attached response indicates that they will ensure bank reconciliations are signed, and have requested clarification from DHSP as to the appropriate billing period for the conference.*

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with FRI and DHSP. FRI's attached response (Attachment II) indicates that they agree with our findings and recommendations, subject to clarification that will be sought with DHSP. DHSP will work with FRI to ensure our recommendations are implemented.

We thank FRI management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:ku

### **Attachments**

c: Sachi A. Hamai, Interim Chief Executive Officer  
Cynthia A. Harding, M.P.H., Interim Director, Department of Public Health  
Robert G. Rassp, Chairman, Friends Research Institute, Inc.  
Frank J. Vocci, Ph.D., President, Friends Research Institute, Inc.  
Public Information Office  
Audit Committee

**FRIENDS RESEARCH INSTITUTE, INC.  
DIVISION OF HIV AND STD PROGRAMS  
CONTRACT COMPLIANCE REVIEW  
CONTRACT YEAR 2013-14**

**CASH/REVENUE**

**Objective**

Determine whether Friends Research Institute, Inc. (FRI or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed FRI management, and reviewed their financial records and January 2014 bank reconciliations for two bank accounts.

**Results**

FRI properly recorded revenue in their financial records, and deposited Department of Public Health, Division of HIV and STD Programs (DHSP) cash receipts timely. However, the Agency did not ensure the preparer and reviewer signed and dated bank reconciliations. We noted a similar finding in our prior monitoring review.

**Recommendation**

1. Friends Research Institute, Inc. management ensure that bank reconciliations are signed and dated appropriately.

**EXPENDITURES/COST ALLOCATION PLAN**

**Objective**

Determine whether FRI's Cost Allocation Plan (Plan) complied with their County contracts, and if expenditures charged to DHSP were allowable, properly documented, and accurately billed.

**Verification**

We reviewed FRI's Plan and their financial records for 35 non-payroll expenditures, totaling \$23,533, that the Agency charged to DHSP from January to November 2013. We also interviewed Agency personnel.

**Results**

FRI prepared their Plan in compliance with their County contracts and their expenditures were generally allowable, properly documented, and accurately billed. However, for one (2%) of the 35 expenditures reviewed, the Agency billed DHSP \$460 for a conference that occurred after the contract term ended.

**Recommendations**

**Friends Research Institute, Inc. management:**

- 2. Repay the Division of HIV and STD Programs \$460.**
- 3. Ensure that billed expenditures are incurred during the contract period.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether FRI appropriately charged payroll costs to DHSP and maintained personnel files as required.

**Verification**

We compared the payroll costs for seven employees, totaling \$18,809 for November 2013, to the Agency's payroll records and time reports. We also interviewed staff, and reviewed personnel files for the same seven employees.

**Results**

FRI appropriately charged payroll costs to DHSP and maintained personnel files as required.

**Recommendation**

**None.**

**COST REPORTS****Objective**

Determine whether FRI's Contract Year (CY) 2013-14 Cost Reports reconciled to their financial records.

**Verification**

We compared the Agency's CY 2013-14 Cost Reports to their financial records.

**Results**

FRI's CY 2013-14 Cost Reports reconciled to their financial records.

**Recommendation**

**None.**



**Friends Research Institute, Inc.**

*Research • Grants Administration • Education • Treatment*

17215 Studebaker Road, Suite 380  
Cerritos, California 90703  
562.924.2872 Fax 562.860.8163  
www.friendsresearch.org  
e-mail: fri@friendsresearch.org

June 1, 2015

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John Naimo  
Auditor-Controller  
500 W Temple Street, Room 525  
Los Angeles, California 90012

RE: Friends Research Institute, Inc  
Fiscal Review 2013-2014

Dear Mr. Naimo:

Please find below our responses to the Fiscal Review conducted in March, 2014.

Cash/Revenue Recommendation 1: FRI has added clear signature lines for the preparer and reviewer of bank reconciliations. We will ensure that all bank reconciliations are signed by both the preparer and reviewer going forward.

Expenditures/Cost Allocation Plan Recommendation 1: Prior to repaying DHSP \$460, we have requested approval/clarification from DHSP as to the appropriate billing period for early-bird conference registration and airfare costs. We will resolve this issue during resolution.

Expenditures/Cost Allocation Plan Recommendation 2: Again, we are seeking clarification of DHSP's instructions on this matter regarding the billing of early-bird conference registration and airfare costs.

Thank you for the opportunity to respond to this Fiscal Review.

Sincerely,

Jennifer Reyes  
West Coast Director